



PERS MEMBER NEWS

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NV PERS

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PERS' Executive Staff

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2004 ANNUAL REPORT SUMMARY

Each year the System publishes an annual report, which is submitted to the Governor, members of the Nevada Legislature, public employers, as well as employee and employer associations. The following is some of the pertinent information contained in our 2004 annual report. Any member who would like a copy of the report should contact the System.

Member/Retiree Demographics - The annual report shows interesting trends in membership and retirement data, as follows:

	<u>Member/Retiree Demographics</u>		
	<u>1999</u>	<u>2004</u>	<u>Annual Compound Increase (%)</u>
Active Members	77,252	90,242	3.2
Public Employer Payroll (millions)	\$ 2,682.1	\$ 3,812.8	7.3
Average Annual Salary:			
Regular	\$ 33,397	\$ 40,069	3.7
Police/Fire	\$ 45,283	\$ 59,008	5.4
Retirees & Survivors	21,022	28,768	6.5
Ratio: Active Members/Retirees & Survivors	3.7	3.1	
Average Annual Retirement Benefit:*			
Regular	\$ 18,480	\$ 23,532	5.0
Police/Fire	\$ 27,996	\$ 36,168	5.3
Total Benefits (millions)	\$ 374.3	\$ 657.6	12.2

*Excludes survivors and beneficiaries

In 1999, the System had 3.7 active members for each person drawing a benefit. This ratio decreased to 3.1 active members per benefit recipient by 2004. We anticipate that this trend will continue to decrease to about 3 active members per retiree within the next three years.

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DEDICATED TO DELIVERING ACCURATE AND TIMELY SERVICE

2004 ANNUAL REPORT SUMMARY (continued)

A comparison of active members by employer type for 1999 and 2004 is as follows:

June 30	<u>1999</u>	<u>2004</u>
State & University	17,861	19,448
Schools	31,452	39,028
Counties	10,265	11,554
Cities	7,381	9,022
Miscellaneous	<u>10,293</u>	<u>11,190</u>
Totals	77,252	90,242

Contribution Rates - As of July 1, 2004, contribution rates for regular and police/fire members under the two contribution plans were as follows:

<u>Contribution Rates:</u>	<u>7/1/04</u>
<u>Employer Pay</u>	
Regular	20.25%
Police/Fire	28.50%
<u>Employee/Employer (Matching Rates)</u>	
Regular	10.50%
Police/Fire	14.75%

Contribution rates will remain the same through June 2005 for all members regardless of contribution plan.

Investments - The System has a funding objective to provide a total rate of return which exceeds the Consumer Price Index (CPI) by 4.5% each year over the long-term future. Our investment objective to achieve that funding is to capture market returns for each asset class. For example, regarding domestic common stocks, it is the return of the S & P 500; for U.S. bonds, the Lehman Aggregate Index; and for real estate, the National Council of Real Estate Investment Fiduciaries (NCREIF) index. International stocks are measured against the Morgan Stanley Capital International Europe, Australia, Far East Index, and International Bonds against the Citigroup Non-Dollar Government Bond Index. Total return for the year was 12.1%.

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Need Information? Call:

From Las Vegas	486-3900
From Reno or Carson City	687-4200
From Anywhere Else in the U.S.	1-866-473-7768

2004 ANNUAL REPORT SUMMARY (continued)

Financial - During the 2004 fiscal year, the total fund balance changed as follows:

2004 Statement of Changes In Plan Net Assets

(\$ in millions)

Fund Balance July 1, 2003		\$14,074.0
Revenues:		
Contributions	\$	912.8
Investments		1,700.8
Other		<u>2.1</u>
Total		2,615.7
Expenses:		
Benefits		657.6
Refunds		12.1
Administration		<u>9.8</u>
Total	\$	679.5
Excess, Revenues over Expenses		<u>1,936.2</u>
Fund Balance June 30, 2004		<u>\$16,010.2</u>

Major Initiatives

Legislation

The Nevada legislature convenes on a biennial basis in odd-numbered years. During the interim between legislative sessions, the System completed a mandated study relating to PERS' disability program and taxation of disability benefits. Senate Bill 345 of the 2003 session required this study to be completed by June 30, 2004, and included, in the responsibilities of the System, that an opinion be sought from the Internal Revenue Service on the taxation of PERS' disability benefits.

The study was completed in a timely fashion and concluded that changes to PERS' disability program must be viewed cautiously as changes in structure may affect the use of the program and eventually the costs associated with the program. Modifying the disability program to make a portion of the benefit non-taxable expands the nature of the program. Due to the potential for rising costs, as well as plan design and policy issues, the Retirement Board did not recommend any changes to the disability program.

Operational Initiatives

This fiscal year, PERS continued to upgrade its communications with specific groups. The quarterly newsletter was separated into two editions, one targeted at members and one targeted at retirees. A new telephone system was installed with a call center to allow the System to provide faster, more efficient service to our members and retirees. The System also held the first Annual Liaison Officer Conference in May. A total of 167 people representing 93 public employers attended the conference to learn more about the Retirement System and the services offered by the agency.

PERS participated for the first time in a performance benchmarking service designed to review the System's operational performance in the absence of a competitive marketplace. The analysis showed that PERS provides a good level of service at substantially lower administration costs than other peer retirement systems.

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2004 ANNUAL REPORT SUMMARY (continued)

PERS' staff continues to monitor utilization of modifications to PERS' retiree re-employment restrictions passed by the 2001 Nevada legislature. This legislation was designed to assist Nevada public employers with re-employment of retirees in areas of critical labor shortage.

Information Technology

This year, the System focused on enhancing PERS' disaster recovery plan and business continuity planning. The agency leased alternate space for a disaster recovery site and put all necessary hardware in place to implement the system. Replicating software will provide PERS with current data at the disaster recovery site on a real-time basis.

The agency established a technology steering committee designed to oversee the allocation of technology resources. This committee reviews technology issues and assigns priorities for completion. The committee will also provide guidance on budgetary issues related to technology.

Information technology efforts were also focused on upgrading the servers the System uses to maintain data and manage accounts. PERS remains committed to providing faster, efficient service on an economical basis.

PERS initiated the use of a security certification process for technology supporting the agency. Staff meets regularly with security analysts to identify vulnerabilities within the various systems and make necessary modifications. No significant security issues have been identified in this process.

Strategic Planning

Strategic and tactical planning are key to the successful management of the System. These plans must address both external and internal elements ranging from financial market analysis to federal legislative efforts to member relations.

PERS' current strategic plan encompasses issues such as Social Security reform, system governance, staffing, operational performance benchmarking, and plan design. Strategic investment management includes validating our long-term return and risk assumptions for our asset classes.



For the 14th consecutive year PERS was awarded the prestigious Government Finance Officers Association of the United States and Canada's (GFOA) Certificate of Achievement for Excellence in Financial Reporting

INVESTMENT PERFORMANCE UPDATE

For the first six months of our fiscal year (July - December 2004), the investment markets generated positive returns, driven by international stocks and bonds. During this period, PERS' portfolio generated a return of 8.6%. Since inception (20 ½ years), the fund's average annual return has been 11%.

At December 31, assets totaled \$17.5 billion.

THE ECONOMIC EFFECTS OF PUBLIC PENSIONS

Public retirement systems in the U.S. are entrusted with over \$2 trillion on behalf of more than 20 million working and retired state and local government employees. Because these assets have long investment horizons, are professionally managed, and are invested in diversified portfolios, they contribute to financial markets' stability and liquidity.

In their 2004 Pension Research Council working paper, *Profitable Prudence: The Case for Public Employer Defined Benefit Plans*, Gary Anderson and Keith Brainard describe the role defined benefit plans serve in attracting and retaining employees in millions of essential public sector positions, such as police officers, firefighters, school teachers, correctional officers, health inspectors, game wardens, and others.

Public pension funds also serve as a source of economic stimulus. *Profitable Prudence* compares the actual investment returns public defined benefit plans accrued for the 20-year period ended in 2002, with those that individuals in defined contribution plans are estimated to have earned during the same period. The paper calculates the additional funds that accumulated due to these higher returns. By applying a standard economic multiplier to measure the effect of additional dollars being distributed into the economy, the paper estimates that **the annual impact of public pension funds' higher investment returns adds \$200 billion, or 2.0 percent, to the nation's total economic output.**

More than \$1.3 trillion of public pension assets are invested in equities of U.S. and foreign companies. Another \$600 billion is invested in bonds issued by the U.S. government and corporations. And because of their long investment horizon, public pension assets are an important source of funding for venture capital—the seeds of future economic growth and productivity improvement.

According to the U.S. Census Bureau, in 2002 (the latest year for which data is available), public retirement systems distributed more than \$110 billion in benefits, while employers (taxpayers) contributed \$39 billion. During the 20-year period ended in 2002, employer contributions made up just one-fourth of all public pension revenue; the remainder came from investment earnings (62 percent) and employee contributions (12 percent).

Moreover, because public pension benefits generally are distributed in the form of regular benefit payments, the economic stimulus they provide is ongoing. Most retired workers live in or near the same area as they worked. Since public employees live in virtually every city and town in the nation, this stimulus reaches virtually every city and town of every state in the nation.

Source: National Association of State Retirement Administrators

For other pension related information visit our website for links to the following Resources:

NASRA – National Association of State Retirement Administrators

NCTR– National Council on Teacher Retirement

NCPERS – National Conference on Public Employees Retirement Systems

PERS' FUNDING EFFICIENT, STABLE, FINANCIALLY SOUND

Recently, interest in the funding of Nevada PERS, the System's assets and liabilities has been raised in light of the national discussion on Social Security as well as other retirement related issues. The Retirement Board is keenly focused on maintaining the fiscal integrity of your pension plan.

A review of NVPERS' funded health and our investment program is helpful in understanding the issue of funding for defined benefit pension plans. Over time, the goal of funding a retirement plan such as Nevada PERS is for the assets to match the liabilities of the fund, plus expenses. In 1984, PERS embarked on a program to reduce the unfunded liability of the System. At that time the System was just 53% funded. Through careful management and commitment by your Retirement Board, the System was over 78% funded as of June 30, 2004 (most recent publication date). From 1984 through 2004, the annualized return of our investment program was 10.9%.

In Nevada, and elsewhere, assets are on hand to pay current benefits and actuarially determined contribution rates are made in accordance with a schedule to retire the liabilities of the System over time. Nevada PERS also enjoys the benefit of positive cash flow with monthly contributions and investment income exceeding benefit payments.

Defined benefit plans like Nevada PERS are structured with the anticipation that from time to time losses will occur. These unfunded liabilities are generally amortized over a 20 to 40 year period, in a manner similar to paying off a home mortgage. This approach helps to weather market fluctuations for the benefit of both plan participants and employers.

References that PERS' unfunded liability exceeds that of the State budget (as in the Wilshire Report and articles relying on that report) are misleading. There is no meaningful relationship between the very long-term funding horizon of PERS and the annual State budget. In fact, Nevada PERS' long-term liability amortization is associated with all Nevada public employers (over 160 different entities) and all public employees. Employers and employees share equally in paying contributions to the System to retire the liabilities over time.

The central goal for all of us at PERS is to protect the financial integrity of the System. Managing the fund in a fiscally responsible manner requires a disciplined, multi-faceted effort to unite assets, liabilities and benefit structure over the long-term horizon of the plan. Nevada PERS is positioned to accomplish this goal in an efficient, stable, and financially sound manner.

Retirement Board Meeting Dates

April 21, 2005 • 693 W. Nye Lane, Carson City
May 25, 2005 • 693 W. Nye Lane, Carson City
June 15, 2005 • 693 W. Nye Lane, Carson City
July 20, 2005 • 5820 S. Eastern Ave., Suite 220, Las Vegas

2005 LEGISLATURE BEGINS

On February 7, 2005, the Nevada Legislature convened for the 73rd biennial legislative session. The Board of Trustees voted to propose several technical or housekeeping changes to the Public Employees' Retirement Act at the 2005 legislative session. No benefit modification legislation is proposed by the Retirement Board for this legislative session. Bill Draft Request 82 is the System's technical bill. It contains three changes to retirement law:

- ◆ PERS is seeking a modification to the requirements for a qualified domestic relations order. Currently the law requires the domestic relations order to contain the social security number of the member and the alternate payee. PERS' requested modification would remove this because the order may be a public record when held by the court. PERS will still require the parties to provide social security numbers privately to the System.
- ◆ PERS is seeking a modification to the law governing survivor benefits to children of deceased members. Currently, a child's survivor benefit may be continued between the ages of 18 and 23 as long as the child continuously remains a full-time student. If the child fails to maintain full-time student status, the benefits cease and cannot be reinstated. PERS' requested modification would allow the System to reinstate the benefits to a child between the ages of 18 and 23 if the child returns to full-time student status.
- ◆ PERS is seeking a technical change to the Judicial Retirement Act to clarify provisions regarding participation in the Judicial Retirement Plan.

Several bills relating to PERS have already been introduced and have received hearings. For a detailed review of legislative matters impacting PERS as well as the Retirement Board's position related to bills affecting the System, please visit our website www.nvpers.org and review the 2005 legislative updates under the "What's New" link.

In-House Programs

PERS' In-House Programs are the place to learn about your PERS benefits.

Informational programs are held the second Thursday of each month in our Las Vegas and Carson City offices. These programs provide general information regarding purchasing service, disability retirement, service retirement, survivor benefits and much more.

- ◆ April 14; 4:00 – Carson City PERS Office
- ◆ April 14; 12:00 & 4:00 – Las Vegas PERS Office
- ◆ May 12; 4:00 – Carson City PERS Office
- ◆ May 12; 12:00 & 4:00 – Las Vegas PERS Office
- ◆ June 9; 4:00 – Carson City PERS Office
- ◆ June 9; 12:00 & 4:00 – Las Vegas PERS Office



Our Las Vegas office is currently taking appointments for June 2005; attending an In-House Program may save you from waiting for an

DISABILITY RETIREMENT

Although no one likes to think it will happen, an injury or illness can disrupt a career. PERS' disability retirement allows an eligible member to begin drawing retirement benefits prior to the eligible retirement age without incurring an early retirement reduction.

You are eligible to apply for disability retirement if:

- You have five years of service credit;
- You are unable to perform your current or comparable job due to an injury or mental or physical illness of a permanent nature;
- You are employed by a public employer at the time of application for disability retirement;
- You file a notarized application for disability retirement with PERS **prior to termination of employment**;
- Employment will be terminated due to such disability

For information regarding disability retirement you may contact our office or review the Disability Retirement Guide on our website.

This publication is intended to provide general information. If there is any conflict between this information and Nevada laws or PERS policies, the laws and policies will supersede this information.

Member News is a quarterly newsletter for members of the Public Employees' Retirement System of Nevada. Comments or suggestions may be directed to: PERS, Newsletter, 693 W. Nye Lane, Carson City, Nevada 89703

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PERS information at
www.nvpers.org



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